



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

October 21, 1999

To: Chief Executive Officers of National Banks

Introduction

The coming New Year's Day promises to be a memorable one in many respects. But I'm confident that, for the banking system, it will be remembered primarily for the seamlessness of the transition from the 20th century to the 21st and for the glitches that never occurred. This is due primarily to the hard work and dedication of you and your staff.

Still, a number of challenges remain. We've recently provided guidance to our examiners that laid out a course of action for dealing with these challenges. The purpose of this letter is to let you know what you can expect in the next three months in connection with the OCC's Y2K supervisory program. Specifically, this letter will address:

- OCC's Fourth Quarter 1999 Year 2000 Supervisory Activities
- Century Date Change (CDC) Event Management Activities
- Temporary Branches

Fourth Quarter 1999 Year 2000 Supervisory Activities

Test of the OCC's Century Date Change (CDC) Plan

The OCC will test its CDC plan on November 4, 1999. At that time, examiners will contact all banks and ask the questions that will be used over the CDC to gather information about Year 2000-related operating problems. You should expect a representative from your supervisory office to contact you on November 4, 1999. To prepare for the questions examiners will ask, a draft copy of the datasheet is attached. Please share this datasheet with the individual responsible for your Year 2000 coordination. We will also be testing our internal systems that day to be certain that our data collection and contingency plans work as we anticipate.

Business Resumption Contingency Plans (BRCP)

By now, all banks should have completed the four phases of their BRCP, including the validation phase. While we understand that banks' contingency plans may change, during their fourth quarter reviews your examiner will ensure that your bank has completed and validated its BRCP, and that the plan is sufficient to meet the needs of the bank. This assessment of the quality of the

BRCP is important to ensure that the plan is reasonable and that, if activated, the plan will allow the bank to operate normally.

Funding Plans

Funding over the CDC weekend is a key potential fourth quarter risk for banks. During the fourth quarter reviews, your examiner will evaluate the quality of your bank's liquidity funding plan and assess its reasonableness. You will recall that Year 2000 contingency funding plans should:

- Consider any funding requirements that may arise through related organizations or affiliates;
- Assess the impact on funding of increased loan demands, such as credit card, home equity, or other loan commitments during the CDC rollover period;
- Evaluate potential liability outflows and the need for additional sources of funding. In anticipation of any possible borrowing, banks should have lines established with the FHLB, FRB and/or other appropriate source;
- Anticipate customer cash needs and ensure that the bank has adequate cash available to meet these expected cash demands. When considering customer cash needs during the CDC rollover, the bank should:
 - Adequately support their estimates of customer withdrawals and the timing of the withdrawals. Where the need for an increase in cash is identified, banks should begin increasing their cash inventories as soon as possible.
 - Consider cash delivery and ATM replenishment requirements.
 - Review the cash vendors' contingency plans and security plans.

Customer Awareness

I believe the most critical Year 2000 risk now facing the industry is the possibility of adverse customer reaction. It is vital that banks continue their efforts to provide comprehensive and accurate information about their preparations for the CDC to the public. I have asked our examiners to continue to encourage you to actively reach out to your customers. In this regard, we recently mailed to you a video and a brochure about Year 2000 which I hope is useful in your customer awareness efforts.

Transfer Agent and Broker-Dealer Activities

The OCC recently issued "Year 2000 Standards for Safety and Soundness for Bank Transfer Agents and Broker-Dealers," 12 CFR Part 30. These standards place two requirements on national banks:

- By November 1, 1999, each bank transfer agent or broker-dealer must identify all transfer agent or broker-dealer systems that are not Year 2000 ready, and
- By November 15, 1999, the bank transfer agent or broker-dealer must develop and implement an effective written business resumption contingency plan for each system that is not Year 2000 ready.

If you are engaging in these activities, during your fourth quarter review, your examiner will ask if you are aware of and complied with these standards.

Capital

Several large banking organizations have indicated that unusual market responses to the century date change could lead to temporary balance sheet growth during that period. This growth could result in an increase in total assets, thereby reducing the bank's regulatory capital ratios and could result in a downgrade of the bank's Prompt Corrective Action (PCA) capital category. A decline in capital ratios has the potential to result in certain consequences for the bank under the Prompt Corrective Action statute. All banks are responsible for managing prudently any temporary balance sheet growth that may occur. Should your bank encounter Year 2000-related balance sheet growth that could affect your PCA capital category, please promptly contact your EIC or ADC. For additional information, please refer to OCC Bulletin 99-36 dated October 5, 1999.

Working with Other Agencies

The OCC is committed to work cooperatively with the other FFIEC agencies to promote the full exchange of information about bank operating performance during the CDC rollover and to minimize burden on the banks.

Where a bank is supervised by multiple agencies, the lead agency will coordinate supervisory and non-supervisory Year 2000 regulatory activities. When the lead bank is a national bank, the OCC will serve as this focal point. Beginning in October, OCC examiners will meet at least monthly with their interagency counterparts to coordinate the regulatory CDC information gathering and monitoring activities. Bank management will be kept informed of the results of the meetings and, where appropriate, asked to participate in the meetings.

Century Date Change Event Management Activities

Contacting Banks

We will be contacting all national banks a minimum of three times during the period of December 20, 1999 through January 4, 2000, to ensure significant operating, funding, or customer problems are identified on a timely basis. The following bullets summarize the scope of each of the contacts.

- The first contact, also known as the final year-end health check, will be completed sometime between December 20, 1999, and December 30, 1999. This contact is designed to provide a current update on the institution's operating performance and identify any adverse funding or customer trends prior to the actual CDC rollover.

- The second CDC contact (the “lights on” health check) should take place concurrently with bank management’s initial check to see if the bank’s computer systems and building facilities (light, water and telecommunications) work in the New Year. Your examiner will inquire as to the timing of this initial check when he or she contacts you during the final year-end health check. For most banks, we anticipate that this will occur on January 1, 2000. Banks that are not planning to have staff in their buildings during the CDC weekend will be contacted the morning of January 3, 2000.

A bank having difficulties bringing up its systems is likely to have operating problems once transactions are processed. Identifying potential problems as early as possible provides both the bank and the OCC with maximum flexibility to respond.

- The third CDC contact will be made after the first day’s processing cycle of the New Year. During the final year-end health check, your examiner will determine when this will occur. We expect that in the majority of our institutions, this contact will occur on January 4, 2000. Some banks, however, may expect to complete their first day processing prior to that date. We believe this last contact will be extremely informative, since it will be impossible to know how well banks have navigated through the CDC before they have completed the first day’s processing.

These three contacts are the minimum number required, and additional contacts may be appropriate depending upon the perceived risk or complexity of the institution.

Post CDC

After the CDC rollover period, another critical date remains - the leap year. As the leap year date has resulted in numerous Year 2000 testing problems, the OCC believes some form of supervisory monitoring is prudent for February 28, 2000, through March 1, 2000. The extent of our supervisory efforts will depend upon the significance of problems encountered during the CDC rollover, with a decision made by the middle of January.

Temporary Branches

The OCC recognizes that during the century date change a bank’s branches may become unavailable due to factors beyond the control of the bank. In order to facilitate the seamless provision of bank services to customers, the OCC will implement the following procedures, under the authority of 12 C.F.R. 5.2(b) and 5.30(h), with respect to the establishment of temporary branches. These procedures may be relied upon to temporarily establish branches only in the event that an existing branch is unavailable as the result of a Year 2000-related infrastructure failure. **If a branch is unable to open due to an infrastructure failure, such as a power outage, phone service interruption or a water delivery system interruption, the bank may establish temporary branches without prior approval from or notice to the OCC. Establishment of temporary branches is limited to those locations where the bank could legally establish a permanent branch under applicable Federal law.**

Preparing for the Year 2000 has been a long and arduous process for businesses and governments throughout the world, including the regulatory community. You should take pride in the fact that the U.S. banking system is ahead of any other sector of the world economy in preparing for the century date change. Little more than two months remain and I am more confident than ever that the banking industry in the United States will pass the century date change test with flying colors.

Sincerely,

A handwritten signature in dark ink, reading "John D. Hawke, Jr." in a cursive style.

John D. Hawke, Jr.
Comptroller of the Currency

Attachments